

CALIFORNIA ENERGY COMMISSION1516 NINTH STREET
SACRAMENTO, CA 95814-5512**STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION**

Implementation of Renewables Investment Plan)	Docket No. 02-REN-1038
and Renewable Portfolio Standard Legislation)	STAFF WORKSHOPS
(Public Utilities Code Sections 381, 383.5 and 445)	Re: Continuation of the
[SB 1038] and Article 16, Sections 399.11, 399.13,)	Renewable Energy Program
and 399.15 [SB 1078])	

**NOTICE OF STAFF WORKSHOPS ON THE
RENEWABLE ENERGY PROGRAM**

On September 12, 2002, Governor Gray Davis signed Senate Bill 1038 (Chapter 515, Statutes of 2002; Sher), the Renewable Energy Program (REP)/Public Interest Energy Research Program (PIER) Investment Plans bill. SB 1038 authorizes the California Energy Commission (Commission) to continue administering the REP and the PIER Programs beginning in January 2003, and extends the Commission's authority to continue distribution of the Public Goods Charge. The legislation also amends the REP and PIER to reflect the Commission's adopted Investment Plans, makes additional changes beyond the Investment Plans, and imposes a number of new requirements on the Commission.

In order to implement the new legislation, the Commission's REP staff will conduct a series of public workshops. The first two of these workshops are the subject of this notice, and are intended to collect public comments on the Emerging, Existing, Customer Credit, and Consumer Education components of the REP. At the workshops, additional consideration will be given to recent passage of other energy legislation to the extent that it bears on the REP's design development.

The New Account component of the REP will not be a topic in the first two workshops. The REP staff intends to develop procedures for the New Account in consultation with the California Public Utilities Commission and in consideration of the provisions of the Renewables Portfolio Standard mandated by SB 1078 (Chapter 516, Statutes of 2002; Sher). The schedule for consideration of the New Account program will be provided in a subsequent notice.

The REP staff intends to address changes to the Customer Credit Account as part of or subsequent to the Customer Credit report mandated by Public Utilities Code Section 383.5(f)(2)(E). This report requires the Commission to report on how to most effectively utilize the funds for Customer Credits, including whether the Customer Credit program should be continued. The workshop on October 28, 2002 will serve to develop initial public comments on the scope of that report. A schedule for this report will be provided in a subsequent notice.

The dates and location of the staff workshops are as follows:

MONDAY, OCTOBER 28, 2002

Beginning at 10 a.m.
CALIFORNIA ENERGY COMMISSION
First Floor, Hearing Room A
1516 Ninth Street
Sacramento, California
(Wheelchair Accessible)

FRIDAY, NOVEMBER 1, 2002

Beginning at 10 a.m.
CALIFORNIA ENERGY COMMISSION
First Floor, Hearing Room A
1516 Ninth Street
Sacramento, California
(Wheelchair Accessible)

Note that the workshops target different topics related to development of the REP:

October 28 - Existing Renewable Resources Account, Customer Credit Renewable Resources Purchases Account

November 1 - Emerging Renewable Resources Account, Renewable Resources Consumer Education Account

Written Comments

The REP staff's compilation of issues highlighted in the legislation and related issues affecting the REP Accounts are summarized in Attachment A. Interested members of the public are encouraged to review and comment. Members of the public may submit written or verbal comments at the workshops on October 28 and November 1, 2002. Written comments submitted after the workshops must be submitted by November 4, 2002.

Those submitting written comments should provide an original plus 11 copies to the Energy Commission's Docket Unit. Those interested in filing comments by e-mail immediately may send electronic documents to [docket@energy.state.ca.us] but will need to follow up with an original copy by mail or delivery to the Docket Unit. If you are providing written comments at the workshops, please make an additional 30 copies available at the beginning of the workshops. Written materials filed with the Docket Unit or provided at the workshops become part of the public record. Please send or deliver written materials to:

California Energy Commission
Re: Docket No. 02-REN-1038
Docket Unit, MS-4
1516 Ninth Street
Sacramento, CA 95814-5504

Assistance

The Commission's Public Adviser, Roberta Mendonca, provides assistance regarding participation in Commission activities. Members of the public who would like information on how to participate in the workshops may contact the Public Adviser's Office by phone at (916) 654-4489 or toll free at (800) 822-6228, FAX at (916) 654-4493, or e-mail at [pao@energy.state.ca.us].

If you have a disability and need assistance to participate in the workshops, please contact Lourdes Quiroz at (916) 654-5416 at least five days before the workshops.

Members of the public who have technical questions regarding this notice may contact Tim Tutt, Technical Director of the Renewable Energy Program by phone at (916) 654-4590 or by e-mail at [ttutt@energy.state.ca.us]. News media should direct inquiries to Claudia Chandler, Assistant Director, at (916) 654-4989.

Dated: October 16, 2002

**STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION**

JOHN L. GEESMAN
Commissioner and Presiding Member
Renewables Committee

JAMES D. BOYD
Commissioner and Associate Member
Renewables Committee

Mass Mail List: Master63
Date Mailed: October 16, 2002

Attachment A: Background Information

Market conditions have significantly altered since the Commission adopted the *Investment Plan* in June 2001. In addition, Senate Bill 1038 (Chapter 515, Statutes of 2002; Sher) enacts important changes in the Renewable Energy Program. The following key changes pursuant to SB 1038 are outlined and discussed below, in addition to questions for public input:

Existing Account

SB 1038 allocates 20 percent of the Renewable Resources Trust Fund to the Existing Account, as recommended in the *Investment Plan*. SB 1038 authorizes the Existing Account to continue its function of providing funds to eligible existing facilities, with the following modifications:

- The Energy Commission is authorized to reexamine and adjust the tier structure to reflect market and contractual conditions.
- Since submission of the *Investment Plan* to the Legislature in June 2001, the vast majority of existing facilities have signed five-year fixed price contracts with the IOUs. The *Investment Plan* states the RESIA program design should "... allow modifications to the parameters (such as target prices, market prices, and caps) of the Existing Renewables Fund as needed to address changing market conditions." The *Investment Plan* indicates that the signing of 5-year fixed price contracts would be an example of "... a situation that could trigger a change in program structure."
- For first-tier biomass facilities, a time-differentiated price comparison is required that will provide a higher incentive when the plants are receiving the lowest price. This feature encourages plants to run the maximum feasible amount of time.
- Payments from the Existing Account for generation after December 31, 2001 were suspended pending passage of legislation authorizing the implementation of the extended REP. SB 1038 passed on September 12, 2002 and is effective on January 1, 2003, implying the potential for one year of retroactive payments (for 2002 generation).
- SB 1078 (Chapter 516, Statutes 2002; Sher) established a Renewable Portfolio Standard, which requires that utilities purchase a certain percentage of their electricity generation from renewable sources. The Energy Commission will coordinate with the California Public Utilities Commission in implementing SB 1078. At this time, it is unclear if and how the provisions of the RPS will affect the Existing Account.

Questions for Public Input

Existing Account

1. Given the predominance of the long-term contracts, how should we structure the Existing Account? How much funding should be allocated in this context? How do we deal with the funds allocated to Tier 2 (Between May 2002 and June 2006 very few wind facilities will likely be eligible for funding from the Existing Account – almost all facilities are under PG&E and SCE’s 5.37 cents/kWh contracts)?
2. Given the time since the *Investment Plan* was adopted, what “market” price(s) and what “target” prices should be used? For facilities that don’t fit into a “group” (for example, facilities not receiving 5.37 cents/kWh fixed prices, should we use market prices specific to those facilities, i.e. contract prices?
3. How might existing facilities participate, if at all, in the newly enacted RPS program (SB 1078)? If any facilities eligible for Existing Account funds are also eligible for the RPS, how do we allocate and disperse funds for those facilities?
4. Given the three technologies eligible for the Existing Account – Biomass, Solar Thermal, and Wind, are the tier structures in the *Investment Plan* appropriate, or should they be altered in some fashion?
5. How do we determine how much generation is eligible for Existing Account funding for those facilities also receiving funding from the Agricultural Waste Program?
6. If a facility repowers or otherwise increases its generation beyond a historical average, and part of its generation is eligible for New Account funding and the rest is eligible for Existing Account funding, how do we determine and verify how much is eligible for funding from each account?
7. Are there any other changes you would recommend to the Existing Account Structure given the fixed price contracts, the probable extension of those contracts at some price, and likely market prices?

Customer Credit Account

SB 1038 allocates 10 percent of the Renewable Resource Trust Fund to the Customer Credit Fund, for a total of \$13.5 million annually. Although SB 1038 authorizes continuing implementation of the Customer Credit Fund as structured in 1998-2001, some modifications to the program have been made and are listed below. Additionally, the legislation directs the Energy Commission to report to the Governor and Legislature on how to utilize the funds for customer credits most effectively, including whether and under what conditions, the program should be continued.

Modifications from the 1998-2001 implementation of the customer credit are as follows:

- Eligibility for customer credit funds is restricted to customers who entered into direct access contracts on or before September 20, 2001.
- Changes in eligible resources are consistent with changes in the definition of in-state renewable resources.
- The legislation directs the Energy Commission to, "... develop criteria and procedures for the identification of energy purchasers and providers that are eligible to receive funds..."

Additionally, market trends and other factors may impact the customer credit program:

- In its *Investment Plan*, the Energy Commission recommended modifications to the customer credit fund to increase its effectiveness. One recommendation was to consider restricting resource eligibility to new renewable resources, which would be consistent with the intent of SB 1038 and SB 1078. The Energy Commission also recommended taking action to ensure that customers are accurately informed that they are receiving the customer credit and purchasing renewable electricity.
- The state has adopted a Renewable Portfolio Standard (Senate Bill 1078) that mandates utilities to purchase renewable energy.
- A market for tradable renewable energy credits (TRCs) is emerging in California and other states. TRCs represent the renewable attribute of electricity that has been produced and delivered to the grid; the renewable attribute may be sold separately from electricity. As part of the report to the Governor and Legislature regarding the utilization of customer credit funds, SB 1038 requires that the Energy Commission evaluate the trend of trading non-energy attributes.

Questions for Public Input

Customer Credit

1. SB 1038 requires the Energy Commission to re-evaluate the customer credit program and determine the best use of customer credit funds.

Should the customer credit program continue? Under what conditions? How can the customer credit best leverage support for a market for renewable energy? What other important market trends should be considered in implementing the customer credit?

2. SB 1038 includes the modification that only customers that had completed direct access service contracts before September 20, 2001 were eligible for receiving future customer credits.

How does the relative closure of direct access affect continuation of the customer credit program? If a remaining direct access customer was purchasing brown power, but switches to being served renewable power, should they be eligible for the customer credit?

3. If the customer credit program continues, what should be the credit level for 2003? How should the program be changed to ensure consumer awareness about their purchase of renewable electricity and the customer credit? Should the eligibility criteria for the customer credit be adjusted to reflect the emphasis on new renewable resources in the extension program, as advocated in the *Investment Plan*? Should the eligibility criteria be otherwise changed subject to legislative requirements?

4. Should the customer credit continue after the RPS implementation begins? Is it needed given utility procurement requirements? If yes, then should funding be restricted to purchases that exceed the RPS?

5. With the emergence of tradable renewable energy credits (TRCs), customers do not need to use direct access contracts to support renewable electricity.

Should the customer credit continue to be restricted to the purchase of renewable energy through direct access contracts? Or should the eligibility requirement for Customer Credit be changed to allow the purchases of TRCs by retail customers (without a direct access contract) to be eligible for the customer credit? If you think TRCs should be eligible for customer credit, what should be the eligibility criteria?

6. Payments from the Customer Credit Subaccount were made for activity from 1998 through year 2001. No payments have been made for activity in year 2002, although the Energy Commission had envisioned making payments on eligible purchases of renewable energy that occurred in 2002.

Should the customer credit be paid on 2002 transactions and why? At what level should the credit level be set?

Questions for Public Input

Consumer Education Account

The structure and goals of the Consumer Education Account as outlined in SB 1038 remain relatively unchanged from the *Investment Plan*. A major modification, however, is that the *Investment Plan* recommended a five percent funding allocation for consumer education activities, but SB 1038 reduced the allocation to one percent of the fund.

1. The Program goals for the Consumer Education Account are as follows:
 - Raise consumer awareness of renewable electricity generation options and their benefits.
 - Increase the purchases of small-scale emerging renewable technologies.
 - Leverage strategic alliances and partnerships with organizations connected to renewable energy in California.

Are these the appropriate goals? Are there others missing from the list? Should we add the following goal?

- Promote the Renewable Energy Program.
2. Of the \$5.4 million allocated to renewable energy consumer education under SB 90, approximately two-thirds of the funds were allocated to statewide marketing, advertising, and public relations with one-third of the funds for grants to support local, grass roots, and targeted outreach efforts.

Is this allocation appropriate? How should future funds be allocated between marketing/advertising and grass roots activities?

3. An early goal in the Renewable Energy Consumer Education Program was to leverage the value of the education campaign by achieving at least a 4:1 match by the expected end of the Program (2002). Three of the grant solicitations conducted during the Program required a minimum of 25 percent match funding.

Should match funding be a requirement? If so, what should the match requirement be?

4. Is there a preference for more frequent, but lower-funded solicitations vs. less frequent higher-funded solicitations? Should the solicitations be scheduled on a regular basis so that applicants can plan for them, or should they be conducted in response to market conditions and needs?

Emerging Account

SB 1038 allocates 17.5 percent of the Renewable Resource Trust Fund to the Emerging Account, for a total of \$23.6 million annually. As summarized in SB 1038, the Emerging Account's purpose and structure remain relatively unchanged from the *Investment Plan*.

The law specifically allows the Energy Commission to provide: "... preference to systems that provide tangible demonstrable benefits to communities with a plurality of minority or low-income populations." SB 1038 also states that the Energy Commission shall: "... develop and implement eligibility criteria and a system that provides preference to systems based upon system performance, taking into account factors, including, but not limited to, shading, insolation levels, and installation orientation."

AB 58 (Chapter 836) may also play a role in the future structure of the Emerging Account. The bill specifies that the CPUC is to establish a separate rebate for eligible distributed emerging technologies in affordable housing projects. In establishing the rebate, where the CPUC determines that occupants of the housing have individual meters, the CPUC may adjust the amount of the rebate based on the capacity of the system to cover up to 75 percent of the installed costs.

Activity in the Emerging Account has continued to be higher in 2002 than in the previous year. Year to year, first through third quarter comparisons, show that the number of completed projects in 2002 are more than three times those in 2001 (542 systems versus 1,751). Buydown payments amounted to approximately \$6.7 million for the first three quarters of 2001 compared to over \$27 million this year. This elevated activity resulted in all rebate funds being encumbered in the third quarter 2002. On September 25, 2002, the Energy Commission approved an intra-fund reallocation of \$13 million in rebate funds from the Existing Account to the Emerging Account in order to continue reserving and processing rebates. If account activity continues at this brisk and steady pace, these funds are likely to be depleted before the end of this year.

The Energy Commission has also initiated the Solar Schools Program as a part of the Emerging Account. Through an interagency agreement with the California Power Authority and an initial \$1.25 million in funding from the Attorney General's Office, the program will fund up to 90 percent of the net cost of photovoltaic electricity generating systems for eligible K – 12 public schools. School districts are limited to 20 kW of generation per district. If rebate reservations represent the maximum system size, eight schools could receive funding.

Since December 2001, \$8 million in rebates has been available to customers of local publicly-owned electric utilities for small systems (10 kilowatts or less). Only 48 reservation requests have been submitted for these funds, resulting in reserved rebates totaling \$495,453.

Questions for Public Input

Emerging Account

SYSTEM PERFORMANCE

SB 1038 (Chapter 515, Section 15) states that “The Energy Commission may require eligible electricity generating systems to have meters in place to monitor and measure a system’s performance and generation.” The issue of system performance raises several questions.

1. Should meters be required for systems to be eligible for future incentives?
2. Should the Commission use some standard test method for rating inverters and photovoltaic modules to reduce variations in manufacturer test methods and more closely reflect field performance?
3. For inverters, is there a test method that should be used to estimate average performance, rather than peak efficiency?
4. Should retailers be required to include a best estimate of annual system production to the customer and when submitting a reservation request?

PROGRAM ELIGIBILITY REQUIREMENTS

1. Should more or less stringent requirements be placed on qualifying for a reservation? On qualifying for a payment? If so, what requirements should be removed or added?
2. Should the Energy Commission place more or less stringent requirements on retailers before listing? On equipment before becoming eligible? If so, what requirements should be removed or added?
3. Should criteria for removing retailers or installers from the program be developed? If so, what criteria should be used and what conditions should be followed by the Energy Commission to de-list businesses? Should criteria to re-list businesses also be developed?
4. Should additional technologies be eligible for incentives in addition to those currently eligible? If so, which technologies and what requirements should be placed on them?

BUYDOWN INCENTIVE LEVEL AND STRUCTURE

1. Should the buydown incentive be changed from its current level? If so, what factors should be considered in determining a revised incentive and how should those factors be weighted? Should a revised buydown incentive remain level or be scaled down over time? If scaled down, what scale should be followed and how often should it change?
2. Should all technologies receive the same incentive? If not, how should the incentive vary between technologies and on what basis should that variation be determined?
3. Should the Energy Commission change or eliminate the percentage level of the incentive in favor of a dollar per watt incentive?
4. Should the incentive apply only to the main components of systems, such as photovoltaic modules and inverters?
5. Should the Energy Commission develop a performance-based structure for the incentive? If so, what should that structure look like?